



Montcalm Area Intermediate School District

**Financial Report
with Supplemental Information
June 30, 2008**

Montcalm Area Intermediate School District

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Independent Auditor's Report

To the Board of Education
Montcalm Area Intermediate School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montcalm Area Intermediate School District as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Montcalm Area Intermediate School District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Montcalm Area Intermediate School District as of June 30, 2008 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information and budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education
Montcalm Area Intermediate School District

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montcalm Area Intermediate School District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated August 11, 2008 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

August 11, 2008

Montcalm Area Intermediate School District

Management's Discussion and Analysis

This section of Montcalm Area Intermediate School District's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the District's basic financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Montcalm Area Intermediate School District financially as a whole. The district-wide financial statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the district-wide financial statements by providing information about the District's most significant funds - the General Fund, the Special Education Fund, and the Vocational Education Fund - with all other funds presented in one column as nonmajor funds.

The format of the financial report is as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Montcalm Area Intermediate School District

Management's Discussion and Analysis (Continued)

Reporting the District as a Whole - District-wide Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the District's basic financial statements, report information on the District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide services to local public school districts, teachers, and students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the services provided and the success in meeting the needs of constituent school districts, to assess the overall health of the District.

The statement of net assets and the statement of activities report the governmental activities for the District, which encompass all of the District's services. State aid and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds - Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by state law and by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as voter-approved special education funding and state and federal grants). The governmental funds of the District use the following accounting approach:

Governmental Funds - All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides.

Montcalm Area Intermediate School District

Management's Discussion and Analysis (Continued)

Reporting the District's Most Significant Funds - Fund Financial Statements (Continued)

Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. Table I provides a summary of the District's net assets as of June 30, 2008 and 2007:

TABLE I

	Governmental Activities	
	June 30	
	2008	2007
	(in thousands)	
Assets		
Current and other assets	\$ 8,409	\$ 8,853
Capital assets	<u>6,142</u>	<u>6,432</u>
Total assets	14,551	15,285
Liabilities		
Current liabilities	2,108	2,574
Long-term liabilities	<u>972</u>	<u>961</u>
Total liabilities	<u>3,080</u>	<u>3,535</u>
Net Assets		
Invested in property and equipment - Net of related debt	5,432	5,722
Restricted	4,993	4,903
Unrestricted	<u>1,046</u>	<u>1,125</u>
Total net assets	<u>\$ 11,471</u>	<u>\$ 11,750</u>

Montcalm Area Intermediate School District

Management's Discussion and Analysis (Continued)

The District as a Whole (Continued)

The District's net assets were approximately \$11.5 million at June 30, 2008. Capital assets totaling approximately \$5.4 million, net of related debt, compares the original cost, less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of those assets. The debt will be repaid from state aid designated for that purpose as the debt service comes due. Restricted net assets are reported separately to show enabling legislation that limits the District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (approximately \$1.0 million) was unrestricted.

The \$1.0 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net asset balance enables the District to meet working capital and cash flow requirements as well as to provide for future uncertainties.

The results of this year's operations for the District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for the fiscal years ended June 30, 2008 and 2007.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2008	2007
	(in thousands)	
Revenue		
Program revenue:		
Charges for services	\$ 111	\$ 93
Operating grants	7,917	7,619
General revenue:		
Property taxes	6,642	5,819
State aid	3,096	2,932
Other	111	688
Total revenue	17,877	17,151
Functions/Program Expenses		
Instruction	6,526	6,354
Support services	10,335	9,832
Interdistrict payments	1,165	473
Food services	44	42
Community services	86	56
Total functions/program expenses	18,156	16,757
(Decrease) Increase in Net Assets	\$ (279)	\$ 394

Montcalm Area Intermediate School District

Management's Discussion and Analysis (Continued)

The District as a Whole (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$18.2 million. Certain activities were partially funded from those who benefited from the programs (\$.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7.9 million). We paid for the remaining "public benefit" portion of our governmental activities with \$6.6 million in taxes, \$3.1 million in state aid, and with our other revenues, i.e., interest and general entitlements.

The District experienced a decrease in net assets of approximately \$279,000. Key reasons for the change in net assets were:

- A Special Education Fund equity payment to LEAs for operation of local special education programs
- Parking lot improvements, lot lighting enhancements, and building improvements
- Central Services fingerprinting mandate by State Department of Education
- Unemployment costs (i.e. THPP personnel)
- Increased instructional/added needs staff and associated para educators due to increased staffing and addition of MOCI classrooms, and supervisory staff
- Significant cost of bus diesel fuel

As discussed above, the net cost shows the financial burden that was once again placed on the State and the District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the District and balance those needs with this revenue.

The District's Funds

As we noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health.

As the District completed this year, the governmental funds reported a combined fund balance of \$6.3 million, which is an increase of approximately \$22,700 from last year. The primary reasons for the increase are as follows:

- Utilization of H.O. Steele Facility by Montcalm Community College
- Sale of MACC Construction Trades Home
- Programmatic changes resulting in reduced expenditures (due to shortage areas, i.e., speech and Director of Instructions, etc.)

Montcalm Area Intermediate School District

Management's Discussion and Analysis (Continued)

Major Governmental Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted just before year end. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information section of these basic financial statements.

The District increased total budgeted revenues in the General, Special Education, and Vocational Education Funds, and overall revenues decreased in the School Lunch Fund.

There were revisions made to the General Fund original budget. Budgeted revenues were increased mainly due to an increase in anticipated state revenue sources and carryover in federal Title II D funds, and a slight increase in local revenues.

There were revisions made to the Special Education Fund original budget due to an increase in taxes, state revenues, federal revenues, Medicaid, and incoming transfers.

There were revisions made to the Vocational Education Fund budget due to tax and local revenues and incoming transfers mainly from the sale of construction trade homes.

Overall, food revenues were decreased; however, there was an increase in federal sources, but a decrease in local sources and incoming transfers.

There were no significant variances between final budget amounts and actual.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2008, the District had a net of \$6.1 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$291,277, or 4 percent, from last year.

	2008	2007
Land	\$ 114,950	\$ 114,950
Buildings and building improvements	8,688,787	8,506,989
Buses and other vehicles	2,377,811	2,217,355
Furniture and equipment	1,967,349	1,811,203
Total capital assets	<u>\$ 13,148,897</u>	<u>\$ 12,650,497</u>

This year's additions of \$516,038 included two new buses. No new debt was issued for these additions.

Montcalm Area Intermediate School District

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the District had \$710,301 in Durant Non-Plaintiff Bonds outstanding. Bond payments are due annually through the year 2013. The resources used to extinguish this debt are derived from restricted state aid allocated specifically for that purpose.

Other obligations are made up of accrued compensated absences. We present more detailed information about our long-term liabilities in the notes to financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the District's budget. One of the most important factors affecting the operating budget is state aid provided to intermediate school districts. Under state law, the District cannot assess additional property tax revenue for general operations. As a result, the District's funding is heavily dependent on the State's ability to fund the District's operations. Based on the current State Aid Act, we anticipate no significant change in state aid funds for operating purposes in the coming fiscal year.

Since the District's operating revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to public school districts, intermediate school districts, and regional educational service agencies.

Subsequent Events

The District has borrowed \$1,250,000 on state aid anticipation notes for general and special education purposes.

Montcalm Area Intermediate School District

Statement of Net Assets June 30, 2008

	Governmental Activities
Assets	
Cash and cash equivalents (Note 3)	\$ 6,816,388
Receivables - Net (Note 4)	1,473,652
Prepaid costs and inventories	119,341
Capital assets - Net (Note 5)	<u>6,142,160</u>
Total assets	14,551,541
Liabilities	
Accounts payable	112,523
Accrued payroll and other liabilities	955,245
State aid anticipation note (Note 10)	1,036,800
Deferred revenue (Note 4)	3,449
Long-term liabilities - Due in more than one year (Note 7)	<u>972,132</u>
Total liabilities	<u>3,080,149</u>
Net Assets	
Investment in capital assets - Net of related debt	5,431,859
Restricted:	
Special education	3,427,737
Vocational education	1,565,371
Unrestricted	<u>1,046,425</u>
Total net assets	<u><u>\$ 11,471,392</u></u>

Montcalm Area Intermediate School District

Statement of Activities Year Ended June 30, 2008

	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities
Functions/Programs				Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 6,526,244	\$ 106,191	\$ 2,366,216	\$ (4,053,837)
Support services	10,334,599	-	5,521,170	(4,813,429)
Food services	43,793	3,687	30,438	(9,668)
Interdistrict payments	1,164,863	-	-	(1,164,863)
Community services	86,350	-	-	(86,350)
Total governmental activities	<u>\$ 18,155,849</u>	<u>\$ 109,878</u>	<u>\$ 7,917,824</u>	(10,128,147)
General revenues:				
Taxes - Property taxes, levied for general purposes				6,641,340
State aid not restricted to specific purposes				3,096,323
Other				111,271
Total general revenues				<u>9,848,934</u>
Change in Net Assets				(279,213)
Net Assets - Beginning of year				<u>11,750,605</u>
Net Assets - End of year				<u>\$ 11,471,392</u>

Montcalm Area Intermediate School District

Governmental Funds Balance Sheet June 30, 2008

	General Fund	Special Education Fund	Vocational Education Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 669,067	\$ 4,314,459	\$ 1,491,228	\$ 341,634	\$ 6,816,388
Receivables - Net (Note 4)	303,171	956,874	213,607	-	1,473,652
Prepaid costs and inventories	6,995	52,176	60,170	-	119,341
Total assets	<u>\$ 979,233</u>	<u>\$ 5,323,509</u>	<u>\$ 1,765,005</u>	<u>\$ 341,634</u>	<u>\$ 8,409,381</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 8,736	\$ 84,201	\$ 19,586	\$ -	\$ 112,523
Accrued payroll and other liabilities	2,541	772,656	180,048	-	955,245
State aid anticipation note (Note 10)	-	1,036,800	-	-	1,036,800
Deferred revenue (Note 4)	1,334	2,115	-	-	3,449
Total liabilities	12,611	1,895,772	199,634	-	2,108,017
Fund Balances					
Reserved for prepaid costs and inventories	6,995	52,176	60,170	-	119,341
Unreserved:					
Designated for building and site	-	-	-	341,634	341,634
Designated for special education	-	2,848,411	-	-	2,848,411
Designated for vocational education	-	-	1,505,201	-	1,505,201
Designated for Medicaid Outreach	-	527,150	-	-	527,150
Undesignated, reported in General Fund	959,627	-	-	-	959,627
Total fund balances	<u>966,622</u>	<u>3,427,737</u>	<u>1,565,371</u>	<u>341,634</u>	<u>6,301,364</u>
Total liabilities and fund balances	<u>\$ 979,233</u>	<u>\$ 5,323,509</u>	<u>\$ 1,765,005</u>	<u>\$ 341,634</u>	<u>\$ 8,409,381</u>

Montcalm Area Intermediate School District

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

Fund Balance - Total governmental funds \$ 6,301,364

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are
not financial resources and are not reported in the
governmental funds:

Cost of capital assets	\$ 13,148,897	
Accumulated depreciation	<u>(7,006,737)</u>	6,142,160

Long-term liabilities are not due and payable in the
current period and are not reported in the
governmental funds:

Bonds payable	(710,301)
Compensated absences	<u>(261,831)</u>

Net Assets - Governmental activities \$ 11,471,392

Montcalm Area Intermediate School District

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General	Special Education	Vocational Education	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Local sources	\$ 488,864	\$ 4,558,565	\$ 1,705,169	\$ 3,697	\$ 6,756,295
State sources	1,091,264	4,857,117	574,410	-	6,522,791
Federal sources	32,296	3,052,725	556,242	30,438	3,671,701
Interdistrict sources	168,223	537,147	220,479	-	925,849
Total revenue	1,780,647	13,005,554	3,056,300	34,135	17,876,636
Expenditures					
Current:					
Instruction	2,341	4,496,428	1,580,259	-	6,079,028
Support services	1,593,902	7,051,340	1,318,615	-	9,963,857
Community services	25,957	60,393	-	-	86,350
Food services	-	-	-	43,793	43,793
Interdistrict payments	34,898	1,129,965	-	-	1,164,863
Capital outlay	200,675	246,445	68,918	-	516,038
Total expenditures	1,857,773	12,984,571	2,967,792	43,793	17,853,929
Excess (Deficiency) of Revenue Over Expenditures	(77,126)	20,983	88,508	(9,658)	22,707
Other Financing Sources (Uses)					
Transfers in	9,240	-	-	9,658	18,898
Transfers out	-	(18,898)	-	-	(18,898)
Total other financing sources (uses)	9,240	(18,898)	-	9,658	-
Net Change in Fund Balances	(67,886)	2,085	88,508	-	22,707
Fund Balances - Beginning of year	1,034,508	3,425,652	1,476,863	341,634	6,278,657
Fund Balances - End of year	<u>\$ 966,622</u>	<u>\$ 3,427,737</u>	<u>\$ 1,565,371</u>	<u>\$ 341,634</u>	<u>\$ 6,301,364</u>

Montcalm Area Intermediate School District

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total governmental funds \$ 22,707

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlay as
expenditures; in the statement of activities, these
costs are allocated over their estimated useful lives as
depreciation:

Depreciation expense	\$ (807,315)	
Capitalized capital outlay	<u>516,038</u>	(291,277)

Compensated absences are recorded when earned
in the statement of activities. In the current year,
more was earned than paid out (10,643)

Change in Net Assets of Governmental Activities **\$ (279,213)**

Montcalm Area Intermediate School District

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies

The accounting policies of Montcalm Area Intermediate School District (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected five-member Board of Education. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Montcalm Area Intermediate School District

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Special Education Fund - The Special Education Fund is used to account for all financial resources relating to the operation of special education programs of the School District.

Montcalm Area Intermediate School District

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

Vocational Education Fund - The Vocational Education Fund is used to account for all financial resources relating to the operation of the vocational and technical programs of the School District.

Additionally, the School District reports the following fund types:

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Fund is the School Lunch Fund. Any operating deficit generated by this activity is the responsibility of the General Fund.

Capital Projects Fund - The Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of monies specifically designed for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

Debt Service Fund - The Debt Service Fund is used to record specific revenue sources and the payment of interest, principal, and other expenditures on long-term debt. The School District's Debt Service Fund is the Durant Fund.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. To the extent that cash from various funds has been pooled, relative interest income is allocated to each fund based on relative participation in the pool.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

Montcalm Area Intermediate School District

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	20-50 years
Buses and other vehicles	7-8 years
Furniture and equipment	5-20 years

Compensated Absences - The liability for compensated absences reported in the district-wide financial statements consists of earned but unused accumulated sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data - Comparative data is not included in the School District's basic financial statements.

Montcalm Area Intermediate School District

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund, Special Education, Vocational Education, and Food Services Funds.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. There were no significant amendments during the year.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Note 3 - Cash and Cash Equivalents

State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated two banks for the deposit of its funds.

The investment policy adopted by the board has authorized investments as listed in the state statutory authority as listed above.

Montcalm Area Intermediate School District

Notes to Financial Statements June 30, 2008

Note 3 - Cash and Cash Equivalents (Continued)

The School District's cash and investments are subject to custodial credit risk as follows:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$7,453,524 had \$7,253,524 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The School District has no investments at year end.

Note 4 - Receivables

Receivables as of year end for the School District's individual major funds are as follows:

	General Fund	Special Education Fund	Vocational Education Fund	Total
Receivables:				
Accounts	\$ 1,759	\$ 71	\$ 8,140	\$ 9,970
Intergovernmental	<u>301,412</u>	<u>956,803</u>	<u>205,467</u>	<u>1,463,682</u>
Total	<u>\$ 303,171</u>	<u>\$ 956,874</u>	<u>\$ 213,607</u>	<u>\$ 1,473,652</u>

Governmental funds report deferred revenue in connection with receivable for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of grant and categorical aid payments received prior to meeting all eligibility requirements totaling \$3,449.

Montcalm Area Intermediate School District

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2007	Additions and Adjustments	Disposals	Balance June 30, 2008
Capital assets not being depreciated - Land	\$ 114,950	\$ -	\$ -	\$ 114,950
Capital assets being depreciated:				
Building and building improvements	8,506,989	181,798	-	8,688,787
Buses and other vehicles	2,217,355	160,456	-	2,377,811
Furniture and equipment	1,811,203	173,784	17,638	1,967,349
Subtotal	12,535,547	516,038	17,638	13,033,947
Accumulated depreciation:				
Building and building improvements	3,852,896	304,233	-	4,157,129
Buses and other vehicles	1,104,920	307,218	-	1,412,138
Furniture and equipment	1,259,244	195,864	17,638	1,437,470
Subtotal	6,217,060	807,315	17,638	7,006,737
Net capital assets being depreciated	6,318,487	(291,277)	-	6,027,210
Net governmental capital assets	<u>\$ 6,433,437</u>	<u>\$ (291,277)</u>	<u>\$ -</u>	<u>\$ 6,142,160</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:	
Instruction	\$ 444,023
Support services	<u>363,292</u>
Total governmental activities	<u>\$ 807,315</u>

Montcalm Area Intermediate School District

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Transfers

The composition of interfund transfers is as follows:

	Transfers In (Out)		
	General Fund	Special Education Fund	Other Nonmajor Governmental Funds
General Fund	\$ 9,240	\$ (9,240)	\$ -
Special Education Fund	-	(9,658)	9,658
Total	<u>\$ 9,240</u>	<u>\$ (18,898)</u>	<u>\$ 9,658</u>

Interfund balances and transfers represent routine and temporary cash flow assistance between funds.

Note 7 - Long-term Obligations

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Durant Non-Plaintiff Bond	\$ 710,301	\$ -	\$ -	\$ 710,301	\$ 66,948
Compensated absences	251,188	10,643	-	261,831	-
Total governmental activities	<u>\$ 961,489</u>	<u>\$ 10,643</u>	<u>\$ -</u>	<u>\$ 972,132</u>	<u>\$ 66,948</u>

Annual debt service requirements to maturity for the above Durant Non-Plaintiff Bond are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 66,948	\$ 17,529	\$ 84,477
2010	70,133	14,341	84,474
2011	73,473	11,002	84,475
2012	419,115	148,458	567,573
2013	80,632	3,839	84,471
Total	<u>\$ 710,301</u>	<u>\$ 195,169</u>	<u>\$ 905,470</u>

Montcalm Area Intermediate School District

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Obligations (Continued)

Durant Non-Plaintiff Bond - Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) of \$905,470 associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources. The Durant Non-Plaintiff Bond is comprised of the following issue:

\$1,202,953 School Improvement Bond, Series 1998, due in annual principal installments ranging from \$66,948 to \$419,115 through May 15, 2013, interest at 4.76 percent.

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for general liability, workers' compensation, and employee health insurance claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Defined Benefit Pension Plan

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Montcalm Area Intermediate School District

Notes to Financial Statements June 30, 2008

Note 9 - Defined Benefit Pension Plan (Continued)

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 11.19 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 10.17 percent for the period from October 1, 2007 through June 30, 2008. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's required and actual contributions to the plan for the years ended June 30, 2008, 2007, and 2006 were \$855,793, \$850,696, and \$796,544, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 6.55 percent for the period from October 1, 2007 through June 30, 2008. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2008, 2007, and 2006 were \$537,693, \$514,028, and \$553,714, respectively.

Note 10 - State Aid Anticipation Note

On August 20, 2007, the Montcalm Area Intermediate School District borrowed \$1,000,000 on a state aid anticipation note for special education purposes. The note bears interest at 3.68 percent and is due August 20, 2008. At June 30, 2008, the School District has accrued interest of \$36,800 on this note.

Note 11 - Subsequent Event

In August 2008, the Montcalm Area Intermediate School District borrowed \$1,000,000 and \$250,000 on a state aid anticipation note for special education purposes and a general education state aid note. Each note, plus interest, is due in August 2009.

Required Supplemental Information

Montcalm Area Intermediate School District

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual
Revenue			
Local sources	\$ 455,997	\$ 488,866	\$ 488,864
State sources	991,189	1,091,263	1,091,264
Federal sources	16,626	32,296	32,296
Interdistrict sources and other	188,736	168,223	168,223
Total revenue	1,652,548	1,780,648	1,780,647
Expenditures - Current			
Instruction - Basic programs	-	2,342	2,341
Support services:			
Pupil	65,495	42,518	42,518
Instructional staff	531,559	524,869	524,869
General administration	311,380	241,154	241,154
Business services	684,993	604,301	604,301
Operation and maintenance	220,345	239,995	239,995
Central	154,039	137,017	137,017
Other	3,600	4,723	4,723
Community services	10,528	25,957	25,957
Interdistrict payments	36,000	34,898	34,898
Capital outlay	166,700	-	-
Total expenditures	2,184,639	1,857,774	1,857,773
Other Financing Sources - Transfers in	-	9,240	9,240
Net Change in Fund Balance	(532,091)	(67,886)	(67,886)
Fund Balance - July 1, 2007	770,030	1,034,508	1,034,508
Fund Balance - June 30, 2008	<u>\$ 237,939</u>	<u>\$ 966,622</u>	<u>\$ 966,622</u>

Montcalm Area Intermediate School District

Required Supplemental Information Budgetary Comparison Schedule - Special Education Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual
Revenue			
Local sources	\$ 4,483,505	\$ 4,558,565	\$ 4,558,565
State sources	3,737,822	4,024,857	4,857,117
Federal sources	3,032,180	2,948,258	3,052,725
Interdistrict sources and other	456,620	1,473,874	537,147
Total revenue	11,710,127	13,005,554	13,005,554
Expenditures - Current			
Instruction - Added needs	4,755,520	4,496,428	4,496,428
Support services:			
Pupil	3,640,086	3,336,090	3,336,090
Instructional staff	1,602,516	1,577,157	1,577,157
General administration	43,750	29,014	29,014
School administration	182,305	105,054	105,054
Business services	47,738	87,711	87,711
Operation and maintenance	364,078	422,542	422,542
Pupil transportation services	1,573,465	1,660,113	1,660,113
Central	73,256	80,104	80,104
Interdistrict payments	131,520	1,129,965	1,129,965
Community services	63,316	60,393	60,393
Capital outlay	238,995	-	-
Total expenditures	12,716,545	12,984,571	12,984,571
Other Financing Uses - Transfers out	-	(18,898)	(18,898)
Net Change in Fund Balance	(1,006,418)	2,085	2,085
Fund Balance - July 1, 2007	3,425,652	3,425,652	3,425,652
Fund Balance - June 30, 2008	<u>\$ 2,419,234</u>	<u>\$ 3,427,737</u>	<u>\$ 3,427,737</u>

Montcalm Area Intermediate School District

Required Supplemental Information Budgetary Comparison Schedule - Vocational Education Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual
Revenue			
Local sources	\$ 1,649,644	\$ 1,705,169	\$ 1,705,169
State sources	602,112	574,410	574,410
Federal sources	556,242	556,242	556,242
Interdistrict sources and other	205,000	220,479	220,479
Total revenue	3,012,998	3,056,300	3,056,300
Expenditures - Current			
Instruction - Added needs	1,605,877	1,580,259	1,580,259
Support services:			
Pupil	154,878	177,404	177,404
Instructional staff	586,171	441,785	441,785
General administration	13,000	5,305	5,305
School administration	286,884	282,778	282,778
Operation and maintenance	427,729	468,227	468,227
Central	11,500	11,019	11,019
Other	-	1,015	1,015
Capital outlay	97,830	-	-
Total expenditures	3,183,869	2,967,792	2,967,792
Other Financing Uses - Transfers out	(700)	-	-
Net Change in Fund Balance	(171,571)	88,508	88,508
Fund Balance - July 1, 2007	1,548,910	1,476,863	1,476,863
Fund Balance - June 30, 2008	<u>\$ 1,377,339</u>	<u>\$ 1,565,371</u>	<u>\$ 1,565,371</u>

Other Supplemental Information

Montcalm Area Intermediate School District

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Capital Projects Fund - Building and Site
	<hr/>
Assets - Cash and cash equivalents	\$ 341,634
	<hr/>
Fund Balances - Unreserved - Designated for building and site	\$ 341,634
	<hr/>

Montcalm Area Intermediate School District

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2008

	Special Revenue Fund	Capital Projects Fund	
	School Lunch	Building and Site	Total
Revenue			
Local sources	\$ 3,697	\$ -	\$ 3,697
Federal sources	<u>30,438</u>	<u>-</u>	<u>30,438</u>
Total revenue	34,135	-	34,135
Expenditures - Current - Food service	<u>43,793</u>	<u>-</u>	<u>43,793</u>
Excess of Expenditures Over Revenue	(9,658)	-	(9,658)
Other Financing Sources - Transfers in	<u>9,658</u>	<u>-</u>	<u>9,658</u>
Net Change in Fund Balances	-	-	-
Fund Balances - Beginning of year	<u>-</u>	<u>341,634</u>	<u>341,634</u>
Fund Balances - End of year	<u><u>\$ -</u></u>	<u><u>\$ 341,634</u></u>	<u><u>\$ 341,634</u></u>

Montcalm Area Intermediate School District

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2008

<u>June 30</u>	<u>Durant Principal</u>
2009	\$ 66,948
2010	70,133
2011	73,473
2012	419,115
2013	80,632
	<u><u>\$ 710,301</u></u>
Principal payments due	May 15
Interest payments due	May 15
Interest rate	4.76%
Original issue	<u><u>\$ 1,202,953</u></u>